



LESSONS LEARNED RECORD OF INTERVIEW

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LL-03 – U.S. Perception and Responses to Corruption in Afghanistan				
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Purpose:				
This interview was conducted in order to discuss the USG response to corruption in Afghanistan, particularly with regard to the Kabul Bank crisis in 2010/2011.				
Interviewees:				
SIGAR Attendees:				
James Wasserstrom (Strategic Advisor and Project Lead), Kate Bateman (Research Analyst)				
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Kate Bateman, Research Analyst – August 5, 2015				
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Key Topics:				
<ul style="list-style-type: none">• US Embassy response to Kabul Bank crisis: Eikenberry/Todd vs Crocker/Olsen• Lessons learned from KB, and recommendations• IMF Program and Kabul Bank• CT mandate and Kabul Bank• Technical Advisors				



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Kabul Bank

Kabul Bank (KB) was the best case I've encountered in my career of corruption – highly visible, upwards of \$1 billion stolen, including one of the president's brothers being one of the leaders of the group. \$1 billion in the Afghan economy is equal to 7-8% of Afghanistan's GDP. In terms of US GDP, that would be about \$1 trillion.

(b)(3), (b)(6), (b)(7)(C) fought very hard to make this a litmus test of US policy. Purpose being not to expose that there was rampant corruption in Afghanistan, but as Eikenberry said, to make Afghans take governance seriously. Because without them taking governance seriously, it was hard to imagine how Afghanistan can become a self-sufficient country.

Embassy responses to KB: Eikenberry/Todd vs. Crocker/Olsen

(b)(3), (b)(6), (b)(7)(C), Amb Eikenberry was Chief of Mission and Amb Bill Todd was Coordinating Director for Development and Economic Affairs (CDDEA). During this period, they did not necessarily prevail, but both Eikenberry and Todd took the issue very, very seriously; they did describe KB as a litmus test. They put it on the US and bilateral US-Afghanistan agenda.

(b)(3), (b)(6), (b)(7)(C) Amb Crocker (CoM) and Amb Rick Olsen (CDDEA) came in. "It was a case study of how fragile and precarious US policy can be. Literally overnight our entire policy changed. Crocker's and Olsen's attitude was to make the issue go away, bury it as deep as possible, and silence any voices within the embassy that wanted to make this an issue. They prevailed." What was driving their view? Making certain at all costs that US and donor support continued to flow. Ensure continuity of US assistance, regardless of results. If Eikenberry and Todd had continued another 8-10 months, we might have had a different outcome. It was a case where the personalities running the ship were extremely important. Amb. Tony Wayne was also very much in the Crocker/Olsen mold.

Lessons Learned / Potential Recommendations

1. Trying to create a system in which *major policy decisions* have deeper roots than the people who happen to be in charge. [Those decisions] should have a more solid foundation and greater clarity. To see a 180 degree shift in policy simply from the replacement of a couple people in embassy – it's not reassuring.
2. Technical advisors: I don't think the US gets good bang for its buck with many advisors. I have many scenarios in mind, but one was: I'd just arrived in Kabul and was meeting with the US lead Technical Advisor (TA) at the DAB [Afghanistan's Central Bank]. This was an American on a USAID contract, who'd been there 3-4 years, five times per week at the DAB. We had an hour-long conversation. I asked him, do you think this is a financially sound bank? He said, Yes. And literally 30 days afterward, the whole house of cards came down. This was one of the biggest misses in my career. A \$1 billion bank collapsed, and the US advisor swore to me it was financially sound. Indicates that we need to review the quality of TA that USG pays for.
3. Recommend greater coordination in US policy-making process. Aside from different views on KB, the whole process of discussion and coordination was completely dysfunctional – within the embassy and USG as a whole. When Eikenberry and Todd were running the embassy (b)(3), (b)(6), (b)(7)(C) When Crocker and Olsen were there (b)(3), (b)(6), (b)(7)(C) not invited to a single SVTC. There ought to have been a better way of resolving a serious policy disagreement.

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4. Seems like every time the issue of corruption and KB arose, everyone at the table could have sworn that corruption was a serious, important issue. But when that issue was front and center, very concrete, then people would say, well I don't think this is the right case to do something. There were always a million reasons not to do anything. There needs to be some sort of accountability, documentation and record-keeping – so that at least there is clarity about which people are arguing for which position. I'm sure if you go back and ask people what their views were, sure people will say they were appalled by it, etc. But there's nothing to document that they were on the side of brushing it under the carpet.

Some documentation that allows for different sides, but leaves a trail of who is arguing what. It's not about finger-pointing, but to try to inform lessons. You could then ask people who were in favor of pushing under the carpet, see if those same people think it was the right call. There's not that ability because these discussions take place in a fluid way. Many times, it was not even clear to me where or how these decisions are made. It's not as if anything ever came out, with a US decision to do X. No real clarity.

Embassy response to KB, continued

I wasn't privy to where the lines of communications were between Crocker/Olsen and Washington. The prevailing view in Washington was that the KB issue has to disappear. I know Eikenberry was interested in continuing on, but Washington wanted an Ambassador who was more pliant, and who wouldn't make this a big issue. [REDACTED] wanted a promotion and we all know the way promotions work is he had to have some successes to get the next assignment. KB was going to impede other objectives, going to slow down our development assistance. I've seen this in other cases: Ambassadors want to report good news. Incentive is for that.

Eikenberry and Todd were raising KB very professionally, but it was at the very top of agenda, both internally and with the Afghans. With Crocker and Olsen, within less than a month, the entire issue went away. "It was like watching a program on the TV change, just because the person controlling the remote decided to change the channel."

IMF Program and Kabul Bank

Donor assistance depended on Afghanistan remaining compliant with its IMF program. There were 2 options:

- 1) Afghanistan come into compliance.
- 2) Just assume Afghanistan would never meet the requirements, but make KB issue disappear so that donor commitments could keep flowing

I believe #2 was the case.

"I used to do battle with people at World Bank who saw KB as a risk to their entire program. When Karzai refused to comply with IMF, all these donors were faced with the problem of assistance turning off [KB note: donors not being able to disburse funds]. The US strong-armed the IMF into diluting the IMF conditions so that the Afghans would be able to meet them. Negotiations took place in Washington, but the whole pipeline of communications from Kabul to Washington, that's where we went from information from Karl Eikenberry being 'Kabul Bank is a major scandal, Afghans are not facing up to this, we know who these guys were, it was a small group of 5-6 of them. It's a matter of ensuring some accountability' to Crocker and Olsen's message, 'the Afghans really understand this issue, are taking steps to tackle it.' Washington was really not in a position to know for themselves. It's a different environment without local knowledge. The entire narrative changed."



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I think we never got to the point where any donor funding was cut off or reduced. Even with Eikenberry and Todd, the conversation was about tough love, but never reached the point of a reduction in donor funding.

The Eikenberry/Todd approach was working, absolutely. I believe Minister [of Finance] Zakhilwal and people at the DAB were taking the issue more seriously. I know that because when a second large bank, Azizi Bank – when there were rumors that Azizi was going to go bust, the Afghans were far more responsive on Azizi. When the embassy was under Eikenberry/Todd, the Afghans dealt with Azizi Bank much more quickly and efficiently than with Kabul Bank. If E/T had had another 12-18 months, I feel we would have seen a more positive outcome.

Timeline on IMF Program

In 2010, Afghanistan had been on an IMF program. Kabul Bank broke in about July 2010. At that point, Afghanistan fell off track of the IMF program, so there were no more disbursements in July/August 2010. Having fallen off, they needed to get on a new IMF program. For the next 18 months, there were very slow-moving negotiations between Afghans and IMF. I believe capitals decided that as long as it looked like Afghans were making progress on an IMF program, development funds could flow. But the clock was ticking, that approach would not last indefinitely, maybe 12-18 months (b)(3), (b)(6), (b)(7)(C) a new program was agreed.

Personnel lessons learned

It's worth noting the difference in the Ambassadors' backgrounds: Eikenberry and Todd were not career FSOs; Crocker and Olsen were. Todd had an economics background as a CPA, and auditor experience. As we think about lessons learned, I feel an economic portfolio – particularly one involving as much money and complexity as in Afghanistan – like CDDEA deserves someone with an economics background.

Counter-terrorism/security mandates and Kabul Bank

Yes I think the CT mandate had something to do with our failure to be more aggressive on KB. Petraeus made the point that yes KB is bad, but we're fighting a war here, there are bigger issues at stake. That view is valid, a perfectly legitimate view. But let's think carefully about how much of an investment to make. We're investing heavily in their financial sector – we would point to all the good things we were doing in the financial sector. But if that's the case, let's not put millions of dollars into it. "KB was a classic case of a Potemkin village."

The military balked 100%, as the civilians did. HR McMaster was a fantastic guy – a lot of sincerity in wanting to do something about corruption, but when a situation like KB presented itself, and these dilemmas and tradeoffs present themselves in such a raw way – when it crystallizes dramatically – then people are more cognizant of the risks and tradeoffs involved.

Petraeus was *very* decisively on the side of KB is not an issue where we want to plant our flag. I find that perfectly legitimate.

But we decided not to do anything on KB, and did that buy us any time on counterinsurgency?

Lessons, continued

The thing I took away from it on a personal note: it was the *way* in which policy disagreements got resolved. It was not a good process internally. It was very fickle and fragile based on personalities of people running the



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USG invested 10 years of time and significant resources trying to build the financial sector and when the moment of truth arrived, we didn't have the courage of our convictions. There are a lot of other options open to us, besides brushing under the carpet and turning off donor funding. I always thought there were a number of options in between when we could have applied pressure without destroying our objectives.

Karzai actively believed the US had masterminded the KB collapse to embarrass him; that we were pulling the strings. The governor of DAB, Fitrat, did his best to convince Karzai he was wrong; Fitrat ended up fleeing Afghanistan.

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